

"USA TODAY hopes to serve as a forum for better understanding and unity to help make the USA truly one nation."

—Allen H. Neuharth
Founder, Sept. 15, 1982



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Today's debate: Deregulating banks

Protecting consumers is big part of reforming bank laws

OUR VIEW As banks enter more financial fields, consumers face more pitfalls.

For many, many years, overhauling the banking industry has been one of Congress' favorite pastimes. Just promise to change the nation's Depression-era banking laws, and a host of competing industries starts flooding campaign coffers with cash in an effort to protect their interests. The trick for lawmakers was to not actually pass anything.

This week's announcement of an \$83 billion merger of Citicorp and Travelers Group could bring that game to a halt. The marriage will likely prompt other banks to start courting insurance and securities firms. All of which will put intense pressure on lawmakers to get off the dime and kill the 1933 law that sought to minimize risks to depositors by preventing banks from underwriting securities or insurance products. But breaking down the financial service industry's firewalls also raises serious risks to consumers.

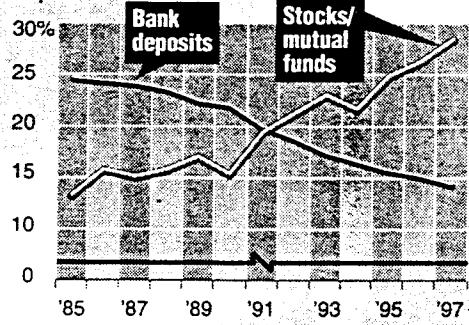
Rip-off risks. The big promise to consumers from merging banking, securities and insurance firms is one-stop shopping. But will those looking for a mortgage be pressured into buying other services from the lender? Or will banks offer package deals that seem appealing but are far more expensive than if each were bought separately? Some consumer-protection ground rules are needed here.

Uninsured risks. Will bank customers be misled about which products are insured and which aren't? Bank deposits are FDIC insured — if the bank goes under, taxpayers pony up to cover the deposits. Stock funds and other investment vehicles aren't. Consumer groups complain that it will be too easy for banks to woo customers to riskier, higher-paying investments, with customers thinking their assets are protected. Clear guidelines are a must.

Taxpayer risks. Taxpayers also face heightened risks. Banks might be tempted to use insured deposits as leverage to make riskier in-

Asset shift

Over the past several years, households have moved more of their assets into higher-risk equities rather than federally insured bank deposits.



Source: Federal Reserve Board

By Quin Tian, USA TODAY

vestments, knowing that if the investments turn sour, taxpayers will bail them out. That's what happened in the S&L bailout of the late '80s. It cost taxpayers hundreds of billions of dollars. Firms also might be tempted to loan that money to struggling subsidiaries — again boosting taxpayer risk. Strong safeguards against this "moral hazard" problem have to be in place.

It is nevertheless clear that banking laws designed for an economy 65 years ago don't work as well now. The goal of the 1933 Glass-Steagall Act was to keep banks separate from insurance and securities firms as a way to protect banks.

But the law has weakened banks. They've lost ground at home and abroad to more flexible foreign financial firms.

Responding to this concern, the Federal Reserve Board over the past decade used its authority as regulator of bank holding companies to chip away slowly at the Glass-Steagall wall, giving banks more leeway to set up securities subsidiaries. The Fed has gone about as far as it can under the law. Congress has to tear down the rest of the wall.

As lawmakers remove obstacles to the brave new world of finance, they must take care not to leave the consumer behind.